

TTY 711



"Caltrans improves mobility across California"

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICRP, inquiries of DPW personnel, reliance placed on the single audit report for the fiscal year ended June 30, 2006 and limited testing performed on the DPW indirect costs. The audit also included tests of individual accounts to the general ledger and supporting documentation to assess allowability, allocability and reasonableness of costs based on a risk assessment and an assessment of the internal control system as related to the ICAP as of June 11, 2007. Financial management system changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The draft audit findings were communicated with Phyllis Taddei, Plumas County DPW, on January 10, 2008 and again on January 14, 2008. Our findings, DPW's response and our analysis are documented below.

AUDIT RESULTS

Based on audit work performed, DPW's ICRP for the fiscal year ended June 30, 2006 is presented in accordance with OMB Circular A-87 and the Department's LPP 04-10. The approved indirect cost rate is 45.26% of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that no carry-forward provision applies and no adjustment will be made to previously approved rates.

The following are the findings and recommendations identified during our audit:

Finding 1

The DPW administrative employees do not record their time spent performing work on specific projects on their timesheets. Additionally, we found that DPW direct billed administration time to projects with no timesheets to support the charges. We tested indirect labor costs and found that some of the administration labor time shown as indirect on the timesheets was posted directly to projects in the accounting system. OMB Circular A-87 Attachment B(8)(h)(5) states that:

Personnel activity reports or equivalent documentation must meet the following standards: (a) They must reflect an after-the-fact distribution of the actual activity of each employee,

(b) They must account for the total activity for which each employee is compensated.

Also, the administration timesheets were not signed by the employee(s) or approved by a responsible official. OMB Circular A-87 Attachment B(8)(h) states:

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

In addition, the direct labor time slips were not signed by the employees. One of the tests to determine if the internal control system is adequate to accumulate and segregate reasonable and allocable costs, is to trace the costs billed on a previous invoice to the source documentation and to analyze the documentation to see if it meets the requirements of OMB Circular A-87. The direct labor costs billed were traced to the employees' daily time slips. While the time slips were filled out by the employees daily, the time slips were not signed by the employee. OMB Circular A-87 Attachment B(8)(h)(5) states that:

Personnel activity reports or equivalent documentation must meet the following standards: (d) They must be signed by the employee

Finally, the engineering employees only segregate time on their timesheets between reimbursable projects and engineering overhead. Interviews with staff disclosed that the engineering overhead includes general time to provide necessary services to the residents of the county. OMB Circular A-87 Attachment B(19)(a)(5) disallows costs of other general types of government services normally provided to the general public. Therefore, the engineering overhead could potentially include unallowable labor costs for general types of services provided to the general public. OMB Circular A-87 Attachment A (F)(1) defines indirect costs as "those (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved." The materiality of the potential unallowable labor costs could not readily be determined during the audit, as this time was not segregated on the timesheets.

Recommendation

We recommend that the DPW implement the following procedures:

1. All personnel that perform work on projects should record all of their work hours on timesheets, this includes direct, indirect, and unallowable hours.
2. DPW should implement procedures to ensure that labor costs are properly recorded in the accounting system and that labor billings are supported by timesheets.

3. All personnel should sign their own timesheets and all timesheets should be approved by a responsible official. The only exception would be those employees who work on a single indirect cost activity.
4. The engineering employee timekeeping processes should be revised to accurately track the unallowable time for general government costs and exclude the unallowable costs from the indirect cost pool.

Auditee's Response

Ms. Taddei concurred with the finding and stated the DPW implemented corrective measures including adding additional lines to the timesheets for an approving signature. Ms. Taddei will also review the engineering timekeeping processes to see if there is a way to more accurately track the different services performed by the engineers.

Analysis of Response

The DPW concurred with the finding.

Finding 2

The labor billing rates could not be supported. During the audit of several invoices, support was requested for the labor rates; however the documentation provided did not support the rates billed. OMB Circular A-87 Attachment A (C) (1) (j) states that costs must "be adequately documented." The DPW admitted that the billing rates had not been kept up-to-date in the past; however, they stated that the issue was corrected. The auditor tested current labor rates and the associated support for a more current period than previously reviewed. The current labor rates were supported.

Recommendation

DPW should maintain support for the labor billing rates that are billed.

Auditee's Response

The issue has been corrected.

Analysis of Response

The DPW concurred with the finding.

This report is intended solely for the information of DPW, Department Management, the California Transportation Commission, and the Federal Highway Administration. However, this report is a matter of public record and its distribution is not limited.

Robert A. Perreault, Jr.

June 23, 2008

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Please retain the approved Indirect Cost Rate Plan for your files. Copies were sent to the Department's District 02, the Department's Division of Accounting, and the FHWA. If you have any questions, please contact Kesh Braeger, Auditor, at (916) 323-7886, or Amada Maenpaa, Audit Supervisor, at (916) 323-7868.

Sincerely,



MARYANN CAMPBELL-SMITH
Chief, External Audits

Attachments

c: Brenda Bryant, FHWA
Gary Buckhammer, HQ Accounting
John Pederson, District 2

**Plumas County Department of Public Works
Indirect Cost Plan 05/06**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the Plumas County Department of Public Works.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed-Actual	7/01/05 06/30/06	45.26%	All Programs

*Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rates(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) The estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate:

The fixed rate used in this Agreement is based on actual costs for the period covered by the rate.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in the plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustment will require reimbursement from the grantee.

E. Use by Other Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation:

FY 2006 Budgeted Indirect Costs	\$1,552,064
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FY 2006 Actual Direct Salaries and Wages plus fringe benefits	\$3,482,697
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FY 2006 Indirect Cost Rate	\$45.26%
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CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2006 (July 1, 2005 to June 30, 2006) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments."

(2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of beneficial of causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the predetermined rate.

I declare that the foregoing is true and correct.

Government Unit: Plumas County Department of Public Works

Signature: Robert A Perreault, Jr.

Reviewed, Approved and Submitted by:

Name of Official: Robert A Perreault, Jr.

Title: Director of Public Works

Date of Execution: 01/30/07

Signature: Phyllis Taddei

Prepared by:

Name of Official: Phyllis Taddei

Title: Department Fiscal Officer

Phone: (530) 283-6490

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Signature: Mary Ann Campbell Smith Date: 6-23-08

Reviewed and Approved by:
(Name of Audit Manager)
Title: Chief, External Audits
Date: 6-23-08
Phone Number: (916) 322-7105

Signature: Kesh Braeger Date: 6/23/08

Reviewed and Approved by: Kesh Braeger
(Name of auditor)
Title: Associate Management Auditor
Date: 6/23/08
Phone Number: 916-323-7886

Schedule A
Administration & Engineering

PLUMAS COUNTY DEPARTMENT OF PUBLIC WORKS ICP for 2006
FY 2006 July 1, 2005 / June 30, 2006 Actual Costs

	Direct Costs	Indirect Costs	Unallowed Costs	Total Budget
Salaries	\$2,154,633.21	\$ 636,717.79		\$ 2,791,351.00
Fringe Benefits	\$1,274,063.77	\$ 376,491.23		\$ 1,650,555.00
Total	\$3,428,696.98	\$1,013,209.02		\$ 4,441,906.00

DIRECT COSTS \$ 1,814,552.72

INDIRECT COSTS

A & E UTILITIES	\$ 10,321.04		\$ 10,321.04
COMMUNICATIONS	\$ 9,736.33		\$ 9,736.33
A & E MAINT. STRUC.	\$ 12,586.83		\$ 12,586.83
CONVENTION & TRAVEL	\$ 5,634.35		\$ 5,634.35
OFFICE MACH. & SOFTWARE MAINT.	\$ 5,760.33		\$ 5,760.33
ANNUAL ROAD REPORT	\$ 2,588.50		\$ 2,588.50
OFFICE EXPENSE	\$ 11,497.80		\$ 11,497.80
COST ALLOCATION	\$ 196,255.00		\$ 196,255.00
GEN. ENG. TRAINING/MATERIALS	\$ 642.66		\$ 642.66
SO TOOLS, UTILITIES,BOOT ALLOWANCE ETC.	\$ 225,821.98		\$ 225,821.98
GO MATERIAL, TOOLS, SUPPLIES , WOTCF	\$ 64,010.09	* -6,000	\$ 64,010.09

Total	\$ 544,854.91		\$ 544,854.91
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Subtotal	\$ 1,814,552.72	\$ 1,558,064.30	\$ (6,000.00)	\$ 3,372,617.02
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TOTAL BUDGET				\$ 6,795,314.00
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* Less unallowable costs (Schools/County Coalition)		- \$6,000.00		
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Depreciation		\$0		
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Total Indirect Costs		\$ 1,552,064.30		
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Total Indirect	\$ 1,552,064.30	45.26%	Admin. & Eng.
Sal. Ben. Direct	\$3,428,696.60		